REBUTTAL TESTIMONY

OF

Michael McNally
Financial Analyst

FINANCE DEPARTMENT
FINANCIAL ANALYSIS DIVISION
ILLINOIS COMMERCE COMMISSION

Request for Approval of Revisions to Delivery Services Tariffs and for Approval of Delivery Services Implementation Plan for Residential Customers

Central Illinois Public Service Company, d/b/a AmerenCIPS
and
Union Electric Company, d/b/a AmerenUE

Docket No. 00-0802

June 20, 2001

Witness Identification

Q. Please state your name and business address.

A. My name is Michael McNally. My business address is 527 East Capitol Avenue, Springfield, IL 62701.

Q. Are you the same Michael McNally who previously testified in this proceeding?

A. Yes, I am.

Q. Please state the purpose of your rebuttal testimony in this proceeding.

A. The purpose of my rebuttal testimony is to respond to the rebuttal testimony of Central Illinois Public Service Company ("AmerenCIPS") and Union Electric's ("AmerenUE") (collectively, the "Companies") witnesses Lee R. Nickloy (Ameren Exhibit No. 15.0) and Kathleen C. McShane (Ameren Exhibit No. 14.0).

Response to Mr. Nickloy

Q. Please comment on Mr. Nickloy's assertion that the balance of AmerenCIPS' Pollution Control ("PC") bonds and AmerenUE's Environmental Improvement ("EI") bonds should be included in the Companies' respective capital structures.

A. The capital a company raises is, by nature, fungible. That is, one cannot trace the use of capital and, thus, cannot assign specific dollars a company raises to

specific segments of that company. All capital supports all of the company's assets proportionally. Just as all of the Companies' equity and preferred stock is included in the capital structure used to establish delivery service tariffs, all long-term debt should also be included. Similarly, the cash flows the Companies generate are also fungible and cannot be traced from their sources to their ultimate uses. Without some legal restriction limiting the recourse of bondholders, the liability created with the issuance of bonds puts all cash flows at risk. That is, each segment of the company is ultimately responsible for all of the liabilities of the company, barring legal restrictions. Thus, Mr. Nickloy is correct, AmerenCIPS' PC bonds and AmerenUE's EI bonds should be included in the debt balances of the Companies' respective capital structures.

Q. Please comment on Mr. Nickloy's claim that the interest rate associated with AmerenCIPS' PC bonds and AmerenUE's EI bonds should not be included in the calculation of the Companies' respective costs of long-term debt.

A. Given that AmerenCIPS' PC bonds and AmerenUE's EI bonds should be included in the debt balances of the Companies' respective capital structures, then excluding their associated costs from the calculation of the Companies' respective costs of long-term debt is inconsistent and illogical. As noted above, capital is fungible and, thus, specific capital cannot be assigned to specific segments of a company. Correspondingly, the associated cost of that capital also cannot be assigned to specific segments of a company. It is inconsistent to include PC and EI bonds in the capital structure used to determine delivery service tariffs, and thereby acknowledge that that capital supports the delivery service segment of the company, while excluding the corresponding cost of that

capital. Mr. Nickloy's proposal to exclude the costs of the PC and EI bonds from the calculation of the Companies' overall costs of long-term debt while leaving the balances of the PC and EI bonds in the Companies' overall long-term debt balances, assigns the higher average cost of the Companies' non-PC and non-EI debt to the PC and EI bonds. Thus, despite his claim that the costs of the PC and EI bonds do not represent costs of delivery service, Mr. Nickloy proposes not only to charge customers for those bonds, but to charge them a higher rate than the Companies actually pay for the bonds.

In defense of his proposal, Mr. Nickloy emphasizes that "the Commission will not allow the Companies to reflect in rates costs associated with other functions. For example, AmerenUE will not be allowed to reflect in delivery service rates the cost of the investment in electric generating plant."[1] Unfortunately, Mr. Nickloy's argument is misleading in that his use of the word "investment" fails to differentiate between assets and liabilities. Of course, non-regulated assets are not allowed in the delivery services rate base. However, the Commission does use the cost rate of all AmerenUE's liabilities (i.e., the weighted average cost of capital), including liabilities originally incurred to invest in electric generating plant, to calculate the rate of return to apply to delivery services rate base because AmerenUE must use cash flows from its electric delivery service customers (and gas customers, for that matter) to satisfy the obligations associated with its EI bonds. In contrast, electric delivery services customers do not take service from electric generating plant, and thus, should not be charged for electric generation services. In fact, Mr. Nickloy's omission of AmerenCIPS from this argument highlights an important fact. AmerenCIPS, although holding

[1] Ameren Exhibit No. 15.0, p. 2.

PC bonds whose costs Mr. Nickloy wants to assign to electric generation assets, has no electric generation assets. In contrast, the company that owns AmerenCIPS' former electric generation assets, AmerenEnergy Generating Company, acquired none of AmerenCIPS' PC bonds when it acquired AmerenCIPS' generation assets.[2] Thus, no connection exists between the supposed use of PC and EI bond proceeds and the Companies' continuing liability arising from those bonds.

Q. Is there any other reason to reject Mr. Nickloy's proposal to exclude AmerenCIPS' PC bonds and AmerenUE's EI bonds from the calculation of the Companies' respective costs of long-term debt?

A. Yes. First, as noted in my direct testimony, the exact same proposal was rejected in the Companies' last delivery service rate case. Second, despite Mr. Nickloy's claim that "the Companies' Pollution Control and Environmental Improvement bonds were issued solely and exclusively to finance generation-related capital expenditures,"[3] the Companies made no adjustments in their last bundled electric rate cases to reflect the resulting lower capital costs of the electric utility segments relative to the Companies' overall capital costs.[4] If the low-cost PC and EI bonds support only electric generation assets as Mr. Nickloy claims, the Companies should have made an adjustment in that proceeding with the exact opposite effect of the adjustment Mr. Nickloy proposes in the instant docket. That is, the PC and EI bonds should have been assigned a relatively higher weight in calculating the weighted cost of capital for the bundled electric

[2] Order, Docket No. 99-0398, pp. 8-9.
[3] Company Exhibit No. 15.0, p. 2.
[4] Company response to Staff data request MGM 3.01.

services rate cases. That would have resulted in lower costs of capital for bundled electric services segments relative to those of the Companies overall. However, the Companies' did not deem it necessary at that time to make such an adjustment. It is disingenuous for the Companies to argue for an adjustment that would benefit them in the instant docket, when they failed to make the same argument in prior proceedings when it would have been detrimental to them.

Q. Please comment on Mr. Nickloy's assertions that AmerenCIPS' capital structure should be adjusted to reflect the long-term debt AmerenCIPS intends to issue to replace short-term debt.

A. Since the filing date of Staff's direct testimony, the Commission has authorized AmerenCIPS to issue up to $150,000,000 long-term debt to refund outstanding evidences of indebtedness, including short-term debt.[5] I do not object to replacing short-term debt with long-term debt in its proposed capital structure for AmerenCIPS. However, I propose to replace the short-term debt balance of $88,790,995 in Staff's original capital structure proposal with $110,202,917 long-term debt. The $110,202,917 represents the average monthly balance of total short-term debt outstanding for the 12 months ending June 2000.[6] The originally proposed short-term debt balance should not be replaced dollar-for-dollar with long-term debt because the original proposal excluded short-term debt associated with construction-work-in-progress ("CWIP"), for the reasons explained on page 4 of my direct testimony. Since AmerenCIPS is effectively eliminating its short-term debt, CWIP can no longer be assumed to be financed

[5] Order, Docket No. 01-0350, May 9, 2001, p. 5.
[6] This calculation is shown on Schedule 13.3.

by short-term debt. Rather, CWIP must be assumed to be financed by all capital proportionally, as it truly is. Thus, double-weighting the cost of short-term debt is no longer a concern, as the new AFUDC rate would be identical to the weighted average cost of capital. According to the Company response to Staff data request MGM 3.01, the interest rate for the new long-term debt issue will be approximately 6.75%. That rate appears to be reasonable for a company with AmerenCIPS' financial position. The adjustments to the capital structure and the long-term debt schedule are shown on Schedules 13.1 and 13.2, respectively.

Response to Ms. McShane

Q. Please evaluate Ms. Ahern's rebuttal testimony.

A. Ms. Ahern's rebuttal testimony contains nothing to change my opinion of the Companies' capital structures or costs of common equity. In my judgment, the investor required rate of return on common equity for both AmerenCIPS and AmerenUE ranges from 11.18% to 11.52% with a midpoint of 11.35%.

Capital Structure

Q. After making a primary comparison to gas distributors and a secondary comparison to electric utilities, Ms. McShane concludes that no adjustment is warranted. Do you agree?

A. No. Regardless of which sample group is used a basis for comparison, whether a sample of 17 gas distribution companies rated AA to A-, my 8 company LDC sample, a sample of all A-rated Gas distributors, a sample of 98 electric utilities rated AA to A-, or a sample of all A-rated electric utilities, the proper conclusion is the same: AmerenUE's capital structure is not appropriate for ratemaking purposes. Ms. McShane claims that the reason she arrived at a different conclusion than I did regarding the appropriateness of AmerenUE's capital structure is because she considered gas distributors and electric utilities rated by Standard & Poor's ("S&P") in the range of AA to A-, while I looked only at gas distributors and electric utilities in the A category. However, the mean for Ms. McShane's sample of 98 electric utilities rated AA to A- is 45.5%, which is very similar to the 44.82% mean for A-rated electric utilities I initially used in determining that AmerenUE's capital structure is not appropriate. In addition, the mean for Ms. McShane's sample of 17 gas distributors rated AA to A- is 50.1%, which is even lower than the 50.3% mean for A-rated gas distributors I also used in determining that AmerenUE's capital structure is not appropriate. The table below illustrates that it makes little difference whether one compares AmerenUE's debt and equity ratios to those of companies with AA to A- ratings or to A-rated companies only:

TABLE 1: Capital Structure Ratios

	A-rated Electric Utilities	AA to A- Electric Utilities	A-rated Gas Distributors	AA to A- Gas Distributors	AmerenCIPS 1999	AmerenUE 1999
Debt ratio	50.64%	50.2%	48.80%	49.1%	49.76%	38.07%
Equity ratio	44.82%	45.5%	50.30%	50.1%	43.82%	58.20%

As Table 1 shows, AmerenUE's debt and equity ratios are clearly not in line with the others, whether compared to the mean for AA to A- gas distributors and electric utilities or to the mean for only A-rated gas distributors and electric utilities. In addition, AmerenUE's equity ratio is approximately 10 percentage points higher than the equity ratio for my 8 company LDC sample, upon which my cost of equity estimate was based.[7] The only basis for Ms. McShane's conclusion that AmerenUE's capital structure is reasonable is her focus on the mean of the upper quartile of her comparison groups. That is, rather than focus on the overall mean, she focuses on the mean of the most extremely high equity ratios. Even so, AmerenUE's equity ratio of 58.20% still exceeds the 56.23% average of the upper quartile of her electric utilities sample. Nevertheless, she concludes that since AmerenUE's common equity ratio "within the range maintained by its peers", it is reasonable. Unfortunately, Ms. McShane's approach presumes that the companies in the upper quartile of her comparison samples have capital structures that are reasonable for ratemaking purposes. However, the mere existence of companies with higher common equity ratios does not demonstrate that AmerenUE's equity ratio is suitable for ratemaking purposes. A logical approach to determining the reasonableness of a capital structure would require a comparison to the typical (i.e., average) equity ratio, rather than to extreme observations, which are more likely to be unreasonable themselves. As noted above, such a comparison indicates that AmerenUE's capital structure is not reasonable for ratemaking purposes.

In addition, the implied pre-tax interest ratio resulting from the application of my cost of capital recommendations to the AmerenUE's actual capital structure also

[7] ICC Staff Exhibit 4.0, p. 9.

indicates that AmerenUE's capital structure is not appropriate for ratemaking purposes. As shown on Schedule 13.5, the resulting implied pre-tax interest coverage ratio would be approximately 5.3x. S&P's guidelines for pre-tax interest coverage ratios for companies with business positions of 4 range from 3.3 to 4.0 for an A rating and from 4.0 to 4.6 for an AA rating.[8] Thus, the pre-tax interest coverage ratio associated with AmerenUE's actual capital structure is well above the guidelines for a company with a level of business risk similar to AmerenUE's to maintain an A+ rating; in fact, it is well above the guidelines for such a company to achieve an AA rating.

Comparable Earnings Methodology

Q. Briefly explain the shortcomings of Ms. McShane's Comparable Earnings methodology.

A. The shortcomings of the comparable earnings methodology were summarized in the Commission's Order in Docket No. 91-0193. The Order states,

> "Dr. Brigham testified that the comparable earnings approach used by Mr. Parcell is flawed to such an extent that it is rarely used and has generally been replaced by the DCF and CAPM methods. The Company argued that this method wrongly assumes that the returns earned by investors on book equity during historic periods will equal the current required rate of return on the market value of the utilities' common equity."

In that proceeding, the Commission concluded that

[8] Standard & Poor's, *Research: Utility Financial Targets Are Revised*, www.ratingsdirect.com, June 18, 1999.

> "Mr. Parcell's comparable earnings analysis should be given little weight due to its assumption that the earned rate of return on book equity equals the current investor-required return on the market value of a firm's common equity."[9]

As noted in my direct testimony, the Commission also rejected the comparable earnings methodology in AmerenCIPS and AmerenUE's initial delivery service tariff case, Docket No. 99-0121.[10] The Commission has also rejected the comparable earnings approach in Docket Nos. 89-0033 and 92-0448/93-0239 Consol.[11]

As with the comparable earnings analyses in the Dockets cited above, Ms. McShane's comparable earnings methodology in the instant proceeding is based on the erroneous assumption that earned returns on book equity are acceptable substitutes for investor required returns. Ms. McShane opines that "it is timely for the Commission to revisit the rationale of the comparable earnings test as the industry moves into a more competitive environment."[12] However, there is no connection between competition and the validity of cost of equity methodologies, and even if there were, the Commission is not setting rates for competitive services. Regardless of the current trend in the electric industry overall, delivery services remain regulated and the comparable earnings model remains based on the erroneous assumption that accounting returns are acceptable substitutes for investor required returns. Investor required returns are only loosely related to accounting returns; they are certainly not interchangeable. For example, the return on book value of common equity is entirely unaffected by changes in

[9] Order, Docket No. 91-0193, March 18, 1992, pp. 109-110.
[10] ICC Staff Exhibit 4.0, p. 36.
[11] Order on Remand, Docket No. 89-0033, November 4, 1991, p. 15 and Order, Docket No. 92-0448/93-0239 Consol., October 11, 1994, p. 173.
[12] Ameren Exhibit No. 14.0, p. 5.

investor required rate of return. That is, due to a decline in risk, risk premiums, or the time value of money, investors would bid up the price of a stock, thereby reducing the implied required rate of return, but the anticipated return on book equity would not change.

Q. Please identify Dr. Brigham, to whom the Commission's Order in Docket No. 91-0193 referred.

A. Dr. Eugene F. Brigham was a Graduate Research Professor of Finance and the Director of Florida's Public Utility Research Center at the time of that proceeding.[13]

Q. On whose behalf did Dr. Brigham appear?

A. Dr. Brigham appeared on behalf of Central Illinois Public Service Company ("CIPS").

Q. Were the conditions that Ms. McShane argues necessitate use of the comparable earnings analysis and a market to book ratio adjustment in the instant proceeding similar to those existing at the time of Docket No. 91-0193?

A. Yes. Ms. McShane argues that the disparity between market and book values necessitates both comparable earnings analysis and a market to book adjustment to market-based cost of equity estimates. In 1991, CIPSCO, Inc., AmerenCIPS' parent company, had a market to book ratio of approximately 1.35.

[13] Order, Docket No. 91-0193, March 18, 1992, p. 90.

Q. Did CIPS claim that a market to book adjustment was necessary in its arguments in Docket No. 91-0193?

A. No, it did not.

Market Value vs. Book Value

Q. Please evaluate Ms. McShane's defense of the market to book value adjustment she applied to her DCF and CAPM results.

A. As noted in my direct testimony, in previous proceedings the Commission has rejected the rationale Ms. McShane uses to defend her market to book value adjustment. In Docket No. 97-0351, Consumers Illinois Water Company made the exact same argument to support the use of a modified DCF model and it was rejected by the Commission.[14] Similarly, the same argument was proffered by Illinois-American Water Company witness Phillips in Docket No. 95-0076 in support of a modified DCF model, which was also subsequently rejected by the Commission.[15] Ms. McShane's adjustment is based on the same flawed argument rejected in the past that a market-derived required rate of return does not a produce a "fair" return when applied to a book value rate base if the market to book value ratio differs from one. The crucial flaw in Ms. McShane's reasoning is that she equates secondary investing (i.e., the purchase of existing shares of stock from other investors) with primary investing (i.e., the purchase of new shares of stock directly from the company or the retention of earnings for

[14] Amended Order, Docket No. 97-0351, June 17, 1998, pp. 39 and 42.
[15] Order, Docket No. 95-0076, December 20, 1995, pp. 54 and 69.

reinvestment). The former does not affect the amount of money available to the company to buy assets because the proceeds from the sale go to the previous stockholder, not to the company. Thus, a rise in the price of existing common stock traded in secondary markets does not increase the amount of capital actually serving customers. It only reveals that investors' expectations for the future cash flows of the company have risen or that their required rate of return has fallen. In contrast, primary investment directly contributes capital to the company that is available to buy assets to serve customers. Under original cost ratemaking, ratepayers provide a return only on the amount of capital that is invested in assets that serve ratepayers. It is neither fair nor appropriate to inflate that return to compensate investors for capital not invested in plant and equipment; moreover, such an adjustment would render the establishment of original cost rate base a pointless exercise.

A fair rate of return is determined exogenously from the ratemaking process. That is, the investor required rate of return is determined entirely by the market price investors are willing to pay based on the perceived riskiness of cash flows. Thus, investors, not the Commission, determine the required rate of return. As the Commission stated in Docket No. 92-0448/93-0239 Consol., "The Commission, in authorizing a rate of return, makes an estimate of what the investor is demanding. It is the Commission that reacts to the investor, not vice-versa."[16] The Commission does not control what investors pay for a share of stock, nor does it control investors' expectations for dividends and growth; the Commission simply evaluates investors' behavior to ascertain investors' rate of

[16] Order, Docket No. 92-0448/93-0239 Consol., October 11, 1994, p. 172.

return requirements. The Commission then applies that market-determined rate of return to the amount of equity capital determined to be serving customers.

The erroneous equation of primary and secondary investing also leads to Ms. McShane's incorrect comparison of book values and market values. As indicated above, the amount of money contributed to the company for the purchase of assets that serve ratepayers is not necessarily equal to the market value of the company's stock. This is because the market value of a company's stock is based on the cash flows expected to be generated by all of its assets discounted by the investor required rate of return. If the expected rate of return matches the investor required rate of return, then the market value of the firm will remain equal to book value. However, if the expected rate of return exceeds the investor required rate of return, then demand for the company's stock will increase as investors rush to get in on those abnormally high returns. This increased demand for the company's stock will cause the stock's market value to rise until the expected rate of return on market value equals the required rate of return. Such a scenario would explain why market values of utilities have grown to exceed their book values. Utilities frequently have other sources of cash flows in addition to the operating income component of the revenue requirement set by the Commission. For example, many utility companies own non-regulated assets that generate earnings for investors. Investment tax credits, deferred taxes, and positive working capital balances also may contribute to utilities' earnings. The Commission's allowed revenue requirement does not recognize these "other" earnings and, thus, the Commission does not adjust its revenue requirement downward to offset them. Therefore, some utilities may be able to earn more than their ratemaking operating income, which, as explained above, would drive

the market values of utilities above their book values. Clearly, the Commission should not further increase allowed rates of return when the benefits that utilities receive from other sources of earnings not recognized by the rate setting process increase stock prices above book value. To do so would compensate utilities twice for the same sources of cash flow.

Finally, when taken to its logical conclusion, Ms. McShane's call for an upward adjustment to the allowed rate of return upwards based on a market to book value ratio greater than one would require the Commission to continually make upward adjustments to the allowed rate of return, since such an upward adjustment would tend to again increase the market to book value ratio, thereby warranting another increase, resulting in a never ending upward movement in the allowed rate of return.

Q. Please respond to Ms. McShane's statements that "under competition equity market values tend to gravitate toward the replacement cost of the underlying assets," and that "absent inflation, the market value of firms operating in a competitive environment would tend to equal their book value or cost."

A. The implication is that absent inflation, book values would equal replacement costs. Therefore, Ms. McShane concludes, "For reliance on the DCF cost result to produce a return compatible with the premise that regulation is a surrogate for competition, the DCF cost must be adjusted to reflect the replacement/book value…this value should correspond to the long-run equilibrium market/book ratio."[17] That is, one must make a market to book ratio adjustment to the DCF

[17] Company Exhibit No. 14.0, p. 9.

cost in order to compensate for inflation. However, that argument is incorrect because inflation is already compensated through an inflation premium included in investor required returns. In requesting an adjustment to compensate for inflation, Ms. McShane is effectively requesting compensation for inflation on top of the inflation adjusted return the investors are already receiving. Moreover, nothing in financial theory suggests that stock prices are based on replacement costs. Market values do not equal the cost of replacing current assets, they equal the present value of expected future cash flows generated by current assets and anticipated new investment.

Q. Please illustrate how the market required rate of return compensates utility investors for inflation.

A. Assume that an investor's required real rate of return on a bond equals 5%. If that investor buys a $1,000 par bond maturing in one year in a riskless environment with zero inflation, he will demand 5% interest. At the end of the year he will receive $1,050, comprising his $1,000 initial investment and $50 in interest. Since there was no inflation, the original cost of the bond and its replacement value both equal $1,000, leaving the investor $50 in real returns. Now assume that inflation equals 3%. The investor's return requirement will rise to 8% to cover both the expected decline in purchasing power and the 5% required real rate of return.[18] Consequently, the interest rate on the bond will equal 8% and at the end of the year, the investor will receive $1,080. Under 3% inflation, the replacement value of a $1,000 initial investment will be $1,030 in

[18] This example assumes a riskless environment, thus, it does not account for unexpected inflation, which, in a risky environment, would be compensated through the risk premium component of the required return.

one year, which when deducted from the $1,080 the investor receives, leaves the investor with $50 in real returns. Thus, nominal rates of return, such as those reflected in stock prices already compensate investors for inflation.

Q. Is a market to book adjustment necessary to maintain the Companies' financial condition?

A. No. The current credit rating for both AmerenCIPS and AmerenUE is a stable A+. In addition, the implied pre-tax interest coverage ratio produced by my recommendation equals 3.5x for AmerenCIPS and 3.7x for AmerenUE.[19] S&P's guidelines for pre-tax interest coverage ratios range from 2.8 to 3.4x for companies with business positions of 3 and from 3.3 to 4.0 for companies with business positions of 4.[20] S&P has assigned a business position of 3 to AmerenCIPS and a business position of 4 to AmerenUE.

Financing Flexibility Adjustment

Q. Please evaluate Ms. McShane's defense of her financing flexibility adjustment.

A. Ms. McShane has still failed to demonstrate that either the Companies (or their parent) anticipate they will issue stock in the test year or that costs were actually incurred by the Companies prior to the test year that have not been recovered previously through rates. The Companies' acknowledgement that they have no

[19] The calculation of these ratios is shown on Schedule 13.4.
[20] Standard & Poor's, *Research: Utility Financial Targets Are Revised*, www.ratingsdirect.com, June 18, 1999.

specific costs of issuing common equity on their books for which they seek compensation indicates that a flotation cost adjustment should be rejected.

Conclusion

Q. Please summarize your overall cost of capital recommendation.

A. After adjusting AmerenCIPS' capital structure to reflect the refinancing of short-term debt with the proceeds from a new long-term debt issuance, my overall cost of capital for AmerenCIPS ranges from 8.53% to 8.68%, with a midpoint of 8.60%; my overall cost of capital recommendation for AmerenUE continues to range from 8.82% to 8.98%, with a midpoint of 8.90%. Those estimates are based on a cost of equity ranging from 11.18% to 11.52%, with a midpoint of 11.35%.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

AmerenCIPS

Weighted Average Cost of Capital
December 31, 1999

Company Proposal

	Amount	Percent of Total Capital	Cost	Weighted Cost
Long-term Debt	$518,049,841	45.811%	7.140%	3.2709%
Preferred Stock	$78,403,022	6.933%	4.789%	0.332%
Common Equity	$534,378,323	47.255%	13.000%	6.143%
Total Capital	$1,130,831,186	100.00%		
Weighted Average Cost of Capital				**9.746%**

Staff Proposal

	Amount	Percent of Total Capital	Cost	Weighted Cost
Long-term Debt	$628,252,758	50.62%	6.74%	3.41%
Preferred Stock	$78,387,002	6.32%	4.79%	0.30%
Common Equity	$534,378,322	43.06%	11.18-11.52%	4.81-4.96%
Total Capital	$1,241,018,082	100.00%		
Weighted Average Cost of Capital				**8.53-8.68%**

AmerenCIPS

Embedded Cost of Long-term Debt
December 31, 1999

	Debt Issue Type, Coupon Rate (A)	Date Issued (B)	Maturity Date (C)	Original Principal Amount (D)	Face Amount Outstanding (E)	Unamortized Debt Discount or (Premium) (F)	Unamortized Debt Expense (G)	Carrying Value (H)	Coupon Interest Expense (I)	Amortization of Debt Discount or (Premium) (J)	Amortization of Debt Expense (K)	Total Expense (L)
	First Mortgage Bonds											
1	6.68% Series 97-1	15-Mar-97	15-Mar-00	$5,000,000	$5,000,000		$1,866	$4,998,134	$334,000	$0	$9,081	$343,081
2	6.00% Series Z	01-Apr-93	02-Apr-00	25,000,000	25,000,000	3,624	7,611	24,988,765	1,500,000	14,223	29,871	1,544,094
3	6.75% Series 97-1	15-Mar-97	15-Sep-00	5,000,000	5,000,000		7,296	4,992,704	337,500	0	10,282	347,782
4	6.83% Series 97-1	15-Mar-97	15-Mar-01	5,000,000	5,000,000		11,088	4,988,912	341,500	0	9,198	350,698
5	6.73% Series 97-2	10-Jun-97	01-Jun-01	20,000,000	20,000,000		57,477	19,942,523	1,346,000	0	40,500	1,386,500
6	6.89% Series 97-1	15-Mar-97	15-Sep-01	5,000,000	5,000,000		15,880	4,984,120	344,500	0	9,289	353,789
7	6.94% Series 97-1	15-Mar-97	15-Mar-02	5,000,000	5,000,000		18,512	4,981,488	347,000	0	8,394	355,394
8	6.96% Series 97-1	15-Mar-97	15-Sep-02	5,000,000	5,000,000		21,888	4,978,112	348,000	0	8,078	356,078
9	6.75% Series Y	15-Sep-92	15-Sep-02	23,000,000	23,000,000	73,344	24,224	22,902,432	1,552,500	27,068	8,940	1,588,508
10	6.99% Series 97-1	15-Mar-97	15-Mar-03	5,000,000	5,000,000		23,750	4,976,250	349,500	0	7,409	356,909
11	6.38% Series Z	01-Apr-93	01-Apr-03	40,000,000	40,000,000	59,787	127,179	39,813,034	2,550,000	18,384	39,107	2,607,492
12	6.49% Series 95-1	01-Jun-95	01-Jun-05	20,000,000	20,000,000		161,720	19,838,280	1,298,000	0	29,827	1,327,827
13	7.05% Series 97-2	10-Jun-97	01-Jun-06	20,000,000	20,000,000		146,377	19,853,623	1,410,000	0	22,793	1,432,793
14	5.38% Series AA	15-Dec-98	15-Dec-08	15,000,000	15,000,000	55,961	106,358	14,837,681	806,250	6,243	11,865	824,357
15	6.13% Series AA	15-Dec-98	15-Dec-28	60,000,000	60,000,000	391,416	556,241	59,052,343	3,675,000	13,507	19,195	3,707,703
16	7.50% Series X	01-Jul-92	01-Jul-07	50,000,000	50,000,000	363,330	83,880	49,552,790	3,750,000	48,417	11,178	3,809,595
17	7.61% Series 97-2	10-Jun-97	10-Jun-17	40,000,000	40,000,000		335,445	39,664,555	3,044,000	0	19,218	3,063,218
18	6.75% New Debt - Authorized in Docket No. 01-0350			110,202,917	110,202,917			110,202,917	7,438,697			7,438,697
				$458,202,917	$458,202,917	$947,462	$1,706,792	$455,548,663	$30,772,447	$127,843	$294,225	$31,194,516

	Debt Issue Type, Coupon Rate (A)	Date Issued (B)	Maturity Date (C)	Original Principal Amount (D)	Face Amount Outstanding (E)	Unamortized Debt Discount or (Premium) (F)	Unamortized Debt Expense (G)	Carrying Value (H)	Coupon Interest Expense (I)	Amortization of Debt Discount or (Premium) (J)	Amortization of Debt Expense (K)	Total Expense (L)
	Pollution Control Bonds											
19	7.60% Series 1990 B	01-Mar-90	01-Sep-13	$32,000,000	$32,000,000	$201,064	$124,476	$31,674,460	$2,432,000	$14,698	$9,099	$2,455,798
20	7.60% Series 1990 A	01-Mar-90	01-Mar-14	20,000,000	20,000,000	127,500	77,520	19,794,980	1,520,000	8,994	5,469	1,534,463
21	3.55% Series 1993 C-1*	15-Aug-93	15-Aug-26	35,000,000	35,000,000		337,821	34,662,179	1,242,500	0	12,680	1,255,180
22	5.70% Series 1993 C-2	15-Aug-93	15-Aug-26	25,000,000	25,000,000		256,795	24,743,205	1,425,000	0	9,639	1,434,639
23	6.38% Series 1993 A	01-Jan-93	01-Jan-28	35,000,000	35,000,000	99,456	474,768	34,425,776	2,231,250	3,549	16,943	2,251,742
24	3.55% Series 1993 B-1*	01-Jun-93	01-Jun-28	17,500,000	17,500,000		236,322	17,263,678	621,250	0	8,310	629,560
25	5.90% Series 1993 B-2	01-Jun-93	01-Jun-28	17,500,000	17,500,000		253,764	17,246,236	1,032,500	0	8,923	1,041,423
				$182,000,000	$182,000,000	$428,020	$1,761,466	$179,810,514	$10,504,500	$27,242	$71,064	$10,602,806
	Retired Issues											
26	Series U- 13 5/8% FMB	31-Mar-86	01-Jan-16				$924,663	-$924,663			$57,742	$57,742
27	Series D- 9% FMB	31-Mar-90	01-Feb-14				293,760	-293,760			20,836	20,836
28	Series A- Variable FMB	31-Mar-90	01-Apr-13				100,160	-100,160			7,553	7,553
29	Series T- 9 1/8% FMB	31-May-92	01-May-22				1,394,496	-1,394,496			62,399	62,399
30	Series S- 8.45% FMB	30-Jun-92	01-Jun-07				874,620	-874,620			117,843	117,843
31	Series O- 6.75% FMB	31-Aug-92	01-Aug-02				93,888	-93,888			36,302	36,302
32	Series B- 6 3/8 % PC	01-Jan-93	01-May-28				360,096	-360,096			12,700	12,700
33	Series Z- 6% FMB	01-Apr-93	01-Apr-00				12,464	-12,464			49,450	49,450
34	Series Z- 6.38% FMB	01-Apr-93	01-Apr-03				207,920	-207,920			63,935	63,935
35	Series C- 6 5/8% PC	01-Jun-93	01-Jun-28				158,346	-158,346			5,568	5,568
36	Series C- 6 3/4% PC	01-Jun-93	01-Jun-28				158,346	-158,346			5,568	5,568
37	Series A- 5.85% PC	01-Aug-93	01-Aug-26				180,480	-180,480			6,784	6,784
38	Series A- 5.85% PC	01-Aug-93	01-Aug-26				130,880	-130,880			4,920	4,920
39	Series Newton- 6 5/8% PC	01-Aug-95	01-Aug-09				2,668	-2,668			278	278
40	Series W- 8.5% FMB	15-Dec-98	01-Apr-21				2,213,632	-2,213,632			104,094	104,094
							$7,106,419	-$7,106,419			$555,972	$555,972
				$640,202,917	$640,202,917	$1,375,482	$10,574,677	$628,252,758	$41,276,947	$155,085	$921,262	$42,353,294
	Embedded Cost of Debt											6.74%

*The effective rates on these Pollution Control bonds were determined by using the non-AMT Weekly Floater rate from Salomon Smith Barney, *Municipal Market Comment* , March 23, 2001 and the fees listed in Schedule D-3 of the Companies' response to Staff data request FIN-3.

AmerenCIPS

Balance of Short-term Debt
December 31, 1999

Date (A)	End of Month Balance: Gross Short-term Debt Outstanding (B)	End of Month Balance: CWIP Accruing AFUDC (C)	End of Month Balance: Net Short-term Debt Outstanding (D)	Monthly Average (E)
Jun-99	$127,500,000	$0	$127,500,000	
Jul-99	116,100,000	$0	116,100,000	$121,800,000
Aug-99	78,800,000	$0	78,800,000	97,450,000
Sep-99	91,200,000	$0	91,200,000	85,000,000
Oct-99	90,500,000	$0	90,500,000	90,850,000
Nov-99	85,100,000	$0	85,100,000	87,800,000
Dec-99	132,900,000	$0	132,900,000	109,000,000
Jan-00	115,750,000	$0	115,750,000	124,325,000
Feb-00	100,850,000	$0	100,850,000	108,300,000
Mar-00	111,720,000	$0	111,720,000	106,285,000
Apr-00	143,120,000	$0	143,120,000	127,420,000
May-00	132,470,000	$0	132,470,000	137,795,000
Jun-00	120,350,000	$0	120,350,000	126,410,000
Average				**$110,202,917**

Notes:
Column (D) = Columns (B) - (C) (0 if negative)
Column (E) = [Column (D) + Column (D) from the previous row] / 2

Sources: Company response to Staff Data Requests FIN-2 and MGM 2.01

AmerenCIPS

Implied Pre-Tax Interest Coverage Calculation

High-End	weight	cost	weighted cost of capital	revenue conversion factor	before tax cost of capital	
Long-Term Debt	50.62%	6.74%	3.41%	1.00	3.41%	
Preferred Stock	6.32%	4.79%	0.30%	1.67	0.50%	
Common Equity	43.06%	11.52%	4.96%	1.67	8.28%	
Total Capital	100.00%		8.67%		3.58	ptic
Mid-Point						
Long-Term Debt	50.62%	6.74%	3.41%	1.00	3.41%	
Preferred Stock	6.32%	4.79%	0.30%	1.67	0.50%	
Common Equity	43.06%	11.35%	4.89%	1.67	8.17%	
Total Capital	100.00%		8.60%		3.54	ptic
Low-End						
Long-Term Debt	50.62%	6.74%	3.41%	1.00	3.41%	
Preferred Stock	6.32%	4.79%	0.30%	1.67	0.50%	
Common Equity	43.06%	11.18%	4.81%	1.67	8.03%	
Total Capital	100.00%		8.52%		3.50	ptic

AmerenUE

Implied Pre-Tax Interest Coverage Calculation
(using an imputed capital structure)

High-End	weight	cost	weighted cost of capital	revenue conversion factor	before tax cost of capital	
Long-Term Debt	49.00%	6.93%	3.40%	1.00	3.40%	
Preferred Stock	5.00%	5.64%	0.28%	1.67	0.47%	
Common Equity	46.00%	11.52%	5.30%	1.67	8.85%	
Total Capital	100.00%		8.98%		3.74	ptic
Mid-Point						
Long-Term Debt	49.00%	6.93%	3.40%	1.00	3.40%	
Preferred Stock	5.00%	5.64%	0.28%	1.67	0.47%	
Common Equity	46.00%	11.35%	5.22%	1.67	8.72%	
Total Capital	100.00%		8.90%		3.70	ptic
Low-End						
Long-Term Debt	49.00%	6.93%	3.40%	1.00	3.40%	
Preferred Stock	5.00%	5.64%	0.28%	1.67	0.47%	
Common Equity	46.00%	11.18%	5.14%	1.67	8.58%	
Total Capital	100.00%		8.82%		3.66	ptic

Note: ptic = pre-tax interest coverage ratio, which equals the total before tax cost of capital divided by the before tax cost of debt.

Docket No. 00-0802
ICC Staff Exhibit 13.0
Schedule 13.5

AmerenUE

Implied Pre-Tax Interest Coverage Calculation

(using AmerenUE's actual capital structure)

High-End	weight	cost	weighted cost of capital	revenue conversion factor	before tax cost of capital	
Long-Term Debt	38.07%	6.93%	2.64%	1.00	2.64%	
Preferred Stock	3.73%	5.64%	0.21%	1.67	0.35%	
Common Equity	58.20%	11.52%	6.70%	1.67	11.19%	
Total Capital	100.00%		9.55%		5.37	ptic
Mid-Point						
Long-Term Debt	38.07%	6.93%	2.64%	1.00	2.64%	
Preferred Stock	3.73%	5.64%	0.21%	1.67	0.35%	
Common Equity	58.20%	11.35%	6.61%	1.67	11.04%	
Total Capital	100.00%		9.46%		5.31	ptic
Low-End						
Long-Term Debt	38.07%	6.93%	2.64%	1.00	2.64%	
Preferred Stock	3.73%	5.64%	0.21%	1.67	0.35%	
Common Equity	58.20%	11.18%	6.51%	1.67	10.87%	
Total Capital	100.00%		9.36%		5.25	ptic

Note: ptic = pre-tax interest coverage ratio, which equals the total before tax cost of capital divided by the before tax cost of debt.